Public Service Commission of Wisconsin

Phil Montgomery, Chairperson
Eric Callisto, Commissioner
Ellen Nowak, Commissioner

610 North Whitney Way
P.O. Box 7854
Madison, WI 53707-7854

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To Whom It May Concern:

Commissioner Nowak asked me to respond to RENEW Wisconsin's open letter to the Public Service Commission dated January 30, 2012, regarding the Focus on Energy Program's treatment of incentives for renewable energy systems.

The goal of the Focus on Energy program is to achieve cost-effective energy savings. While Act 141 requires that renewable resources be included in the Focus program, PSC Administrative Rule 137.05(12) requires that the portfolio of Focus on Energy programs achieve a cost-benefit ratio of at least 1.0 based on the Total Resource Cost test. It is important for the program to remain cost effective in order to remain advantageous for ratepayers that contribute to the fund.

Last year, the Focus program administrator, with the PSC's approval, implemented a temporary suspension of business renewable incentives after it became evident that spending on the renewable resource program surpassed allocated budgets and, thus, compromised the cost-effectiveness of the entire Focus on Energy program. Quite simply, by the middle of 2011, the dollars committed to renewable resource projects were already at a level that surpassed the entire year's budget.

Moreover, with the exception of biomass, no renewable resource measure meets the cost-effective criterion. In the past, inclusion of non-cost-effective renewable resources was deemed appropriate as a goal of Focus on Energy was to assist in building the renewable infrastructure and market in Wisconsin. As noted, Focus has succeeded in building an in-state marketplace for renewable resources over the last decade. Now that the market exists, it is necessary to examine the amount of Focus's budget that is dedicated to renewables to prevent incentives from artificially inflating the costs of these technologies.

In addition, renewable projects were historically a fairly small component of Focus and did not significantly impact the cost-effectiveness of the overall program. However, in 2011, there was a dramatic increase in the amount of renewable projects approved. Preliminary data indicates that over 20% of the 2011 Focus incentive dollars were dedicated to renewables, yet this resulted in only 3% of the program's energy savings. This over-commitment to renewables jeopardized the cost-effectiveness of the entire Focus program. Not only was the level of investment too high given the budget, but the investments were made in technologies that produced the least amount of energy savings per dollar. For these reasons, the PSC determined that a temporary suspension and reevaluation of the business renewables program was necessary.

During this suspension phase, the renewable energy incentive offerings are undergoing a redesign that will allow for more sustainable and cost-effective offerings. As part of the Commission's Quadrennial Planning Process for energy efficiency and renewable resource programs, it determined that renewable resources and energy efficiency measures should be evaluated using the same cost-effectiveness test. The Commission, however, recognized that renewable resources have some attributes that are not adequately reflected in the standard benefit-cost test, which does not include non-monetized benefits. It was therefore determined that public policy should dictate the extent to which renewable resources that are not cost-effective should be included in the portfolio of programs.

In October 2011, the Commission unanimously approved guidelines that Shaw Environmental and Infrastructure, the Focus program administrator, will use to evaluate the commercially available renewable technologies suitable for use in Wisconsin. These guidelines include criteria such as technology maturity and risk, current market for the technology, maintenance costs, job creation, and the use of waste as a fuel source. Each technology will receive an overall score from Shaw. Incorporating this information, Shaw will present its program plans for renewables to the Commission. The Commission will then determine how many resources can be devoted to renewable energy projects while still meeting the required program portfolio cost-effectiveness goal. Shaw has begun a renewable resource evaluation and is on track to deliver its final report for submission to the Commission in the first quarter of 2012.

While the Focus on Energy program currently has an impressive payback, the over-inclusion of renewables in the portfolio has the potential to reduce the cost-benefit below the mandatory 1.0 ratio. For these reasons, it was necessary to re-design and re-implement the renewable portion of the program. I hope that this information addresses your concerns about the Focus on Energy Program and renewable incentives.

The PSC and Shaw will work together to ensure that the Focus on Energy program delivers cost-effective renewable programs. More information on the Commission's actions with regard to renewables can be found in docket 5-GF-191. PSC Staff would be happy to answer any additional questions.

Sincerely,

Robert Norcross
Gas and Energy Division Administrator